

Message Text

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ACTION EUR-12

INFO OCT-01 EA-07 ISO-00 AID-05 CIAE-00 COME-00 EB-08
FRB-03 INR-07 NSAE-00 USIA-06 TRSE-00 XMB-02 OPIC-03
SP-02 CIEP-01 LAB-04 SIL-01 OMB-01 DODE-00 PM-04 H-01
L-03 NSC-05 PA-01 PRS-01 SS-15 /093 W
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FM AMEMBASSY MOSCOW
TO SECSTATE WASHDC 3509
INFO USMISSION NATO
AMEMBASSY SINGAPORE

C O N F I D E N T I A L MOSCOW 1221

E.O. 11652: GDS
TAGS: EFIN, UR, SN
SUBJECT: TROUBLES OF THE SOVIET STATE BANK

SUMMARY: A DECEMBER 13, 1976 ARTICLE CONCERNING BAD LOANS
BY SOVIET BANKING INSTITUTIONS ABROAD TRACED THEM TO INCAUTIOUS
POLICY AFTER 1972 AND ATTRIBUTED THEM TO "ORDERS FROM THEIR
ONE SHAREHOLDER." A WESTERN BANKING SOURCE TOLD US JANUARY 26
THAT FORMER STATE BANK DIRECTOR MEFODIY SVESHNIKOV, WHO
RETIRED SOMEWHAT UNEXPECTEDLY LAST OCTOBER, WAS ACTUALLY
SACKED, ALONG WITH TWO OF HIS DEPUTY CHAIRMEN, BECAUSE OF
"SINGAPORE." WHILE THIS REPORT IS OPEN TO QUESTION, CONTINUING
PERSONNEL CHANGES IN THE BANK UNDER ITS NEW LEADERSHIP SUGGEST
THAT SOVIET LEADERSHIP WAS DISSATISFIED WITH STATE BANK
PERFORMANCE. END SUMMARY.

1. AN ARTICLE BY NEIL MCINNES IN THE ASIAN WALL STREET
JOURNAL OF DECEMBER 13, 1976 (ASSUME DEPARTMENT HAS TEXT)
DESCRIBED IN SOME DETAIL THE PROBLEMS OF SOVIETS BANKS ABROAD,
INCLUDING THE BAD LOANS ISSUED BY THE SINGAPORE BRANCH OF
THE MOSCOW NARODNY BANK. MCINNES CAME TO THE CONCLUSION THAT
ALTHOUGH LOCAL OFFICIALS WERE FIRED IN A NUMBR OF CASES,
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THE ROOT OF THE PROBLEM COULD PROBABLY BE TRACED TO "ORDERS
FROM THEIR ONE SHAREHOLDER," I.E., THE SOVIET GOVERNMENT.
HE IDENTIFIED 1972 AS A TURNING POINT FROM A LONG RECORD OF
EXTREME CAUTION BY SOVIET BANKING FACILITIES TO ONE OF
ENGAGEMENT IN AND TOLERATION OF RECKLESS OPERATIONS, SHOWING
A CONSISTENT PATTERN OF OVERTRADING IN FOREIGN EXCHANGE,
AGGRESSIVE LOAN GENERATION WITHOUT REGARD TO THE SECURITY OR

INTEGRITY OF CUSTOMERS, HECITC ACTIVITY IN WESTERN INTERBANK MARKETS UNRELATED TO TRADE FINANCING AND INFLATING BALANCE SHEETS.

2. ON JANUARY 26 A SOURCE IN THE WESTERN BANKING COMMUNITY WHO HAS GOOD CONTACTS AT THE STATE BANK TOLD E/C COUNSELOR THAT THE REPORTED RETIREMENT OF FORMER STATE BANK CHAIRMAN SVESHNIKOV WAS A COVER FOR HIS ACTUAL DISMISSAL "BECAUSE OF SINGAPORE". THE SOURCE SAID THAT FORMER STATE BANK DEPUTY CHAIRMAN YURIY A. BALAGUROV WAS ALSO DISMISSED AT THE SAME TIME AND HAS BEEN SEEN SUBSEQUENTLY WORKING AS AN "ECONOMIST" IN THE BANK. SOURCE THOUGHT THAT ANOTHER DEPUTY CHAIRMAN, PROBABLY VIKTOR USHAKOV, ALSO LOST HIS JOB FOR THE SAME REASON. THE SOURCE WAS PARTICULARLY CONCERNED ABOUT THE SENSITIVITY OF THIS INFORMATION, PRESUMABLY BECAUSE DISCLOSURE MIGHT BE TRACED TO HIM AND HIS OWN CONTACTS.

3. COMMENT: WE HAVE NO INDEPENDENT CORROBORATION OF (A) THE REPORT THAT SVESHNIKOV AND COLLEAGUES WERE SACKED AND (B) THE LINKAGE OF SVESHNIKOV'S RETIREMENT WITH THE PROBLEMS OF THE SINGAPORE BANK (PERHAPS MORE ACCURATELY, SOVIET BANKS ABROAD). THERE IS SOME CIRCUMSTANTIAL SUPPORTIVE EVIDENCE OF THESE REPORTS. SVESHNIKOV'S REPLACEMENT BY VLADIMIR ALKHIMOV LAST OCTOBER WAS A CAUSE OF CONSIDERABLE SURPRISE. ALKHIMOV HAD GENERALLY BEEN EXPECTED TO REPLACE MINISTER OF FOREIGN TRADE PATOLICHEV UPON THE LATTER'S RETIREMENT. SHORTLY THEREAFTER A STATE BANK CONTACT TOLD E/C COUNSELOR PRIVATELY THAT ALKHIMOV HAD COOPTED FOREIGN TRADE BANK CHAIRMAN YURIY IVANOV TO BE FIRST DEPUTY CHAIRMAN
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OF STATE BANK AS WELL, AND ALTHOUGH THIS TO OUR KNOWLEDGE HAS NEVER BEEN ANNOUNCED, ALKHIMOV INTRODUCED IVANOV IN SUCH CAPACITY TO FORMER SECRETARY OF THE TREASURY SIMON LAST NOVEMBER 30. MORE RECENTLY WE REPORTED HEARING THAT V. A. PEKSHEV IS IN LINE FOR A DEPUTY CHAIRMANSHIP OF GOSBANK IN MARCH. ALL OF THIS SUGGESTS THAT THE NEW BROOM IS SWEEPING IN THE STATE BANK. MORE CHANGES MAY BE IN STORE. ON THE OTHER HAND, STATE BANK CONTACT CITED ABOVE TOLD US OCTOBER 22, 1976, THAT HE HAD KNOWN FOR A YEAR OF SVESHNIKOV'S INTENT TO RETIRE, WHICH IF TRUE WOULD HARDLY SUPPORT THE THESIS HE WAS SACKED. THE FACT THAT SVESHNIKOV RECEIVED NO ADULATION AT THE TIME OF HIS "RETIREMENT" IS NORMAL SOVIET PRACTICE, AND HIS AGE OF 65 WAS NOT INAPPROPRIATE FOR RETIREMENT, EVEN IN THE SOVIET UNION. ON BASIS OF PRESENT EVIDENCE WE CONJECTURE THAT SVESHNIKOV WAS PERMITTED TO RETIRE, BUT THAT THE UNDISTINGUISHED PERFORMANCE OF SOVIET BANKS OVERSEAS HAS FACILITATED HIS SUCCESSOR IN BRINGING PEOPLE KNOWN TO HIM INTO KEY POSITIONS IN THE BANK. THE FACT THAT THESE SEEM TO BE PEOPLE WITH FOREIGN TRADE EXPERIENCE MAY ALSO REFLECT

THE GROWING IMPORTANCE OF INTERNATIONAL ECONOMIC ACTIVITY
ON THE SOVIET ECONOMIC SYSTEM
TOON

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